

## Description of the Colorado Health Care Cooperative

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February 15, 2013



This description was originally prepared to supplement "Three Possibilities for Colorado's Future Health Care Financing and Delivery" by economist Gerald Friedman, Ph.D.

### What is the Colorado Health Care Cooperative?

- Harnessing the cooperative business model, Coloradans create a state-based solution to establish an affordable and fiscally sustainable system for health care financing.
- The Cooperative would pay for health care for every resident in the state by reimbursing health care providers for comprehensive health care services.
- All Colorado residents would be members by virtue of residency.

### What are the steps for creating the Cooperative?

- State Senator Irene Aguilar, M.D. will introduce legislation in the Colorado Senate on Feb. 22, 2013 proposing a Constitutional Amendment to allow the creation of the Cooperative.
- If approved by both chambers of the legislature, the Cooperative plan would be sent to the voters of Colorado.
- If the amendment is approved, the state would apply for a waiver from the Affordable Care Act (ACA). The ACA allows states to develop local innovative health care solutions that provide benefits equal to or better than the federal law.
- If voters approve the Constitutional Amendment, the governor and legislature will appoint an Interim Board of Directors.
- The Interim Board will be funded by a premium with a maximum rate of 0.3% of payroll or non-payroll income. The board would hire expert advisors and an executive team to prepare for the implementation of the Cooperative.
- The Interim Board will operate the Cooperative for one year after implementation, at which time an Elected Board assumes responsibility for operations.

### How Would the Cooperative Be Funded?

- Medicaid and ACA would transfer \$20.5 billion of federal and state funds to the Cooperative in 2016, the year the Cooperative would begin operation.
- Colorado residents and businesses would contribute \$16 billion of premiums in 2016.
- The Cooperative would apply to become a Medicare Advantage program and seek voluntary enrollment from Medicare beneficiaries.

### **What are the Cooperative premiums and how are they collected?**

- The premium pays for health care through an independent, non-governmental cooperative agency that is governed by its members.
- Cooperative health care premiums would be collected from employers in the same manner as commercial health care insurance premiums are—through pretax payments. Due to the low employee rates, it is likely that employees whose employers now pay for health care will see either no change or a lower premium rate; however, every person's situation is different.
- The Cooperative is a new way to pay premiums. At some points in a people's lives, they pay smaller amounts, and at other points they pay larger amounts, depending on their current income.
- Describing the Cooperative premiums as a tax makes it difficult for people to see that it is not a new expense for Coloradans. It replaces health care insurance premiums. Overall, it would save consumers and employers money so that they have more disposable income.
- Similar collection systems based on payroll for successful insurance programs include Social Security, Medicare, and unemployment insurance.

### **Could the premiums be called taxes?**

- The premium is like a tax because everyone must pay; it is collected by the government; and it varies according to current income.
- Premiums are unlike most taxes because it is payment for a service, health care, and not the funding of general expenses.
- Unlike most taxes, there is a top limit to the amount that a person pays for Cooperative health care.
- Calling it a Cooperative premium tax would also be accurate because this phrase conveys the similarities to both premiums and taxes.

### **What are the premium rates?**

- Employers would pay a 6% pre-tax Cooperative premium in the same manner as they now pay for Social Security and Medicare.
- Employees would have a 3% Cooperative premium deducted from their paycheck. Employers would have the option to pay the employee portion.
- Residents would pay 9% from income sources other than payroll, with the exclusion of Social Security, pension or unemployment income.
- Because the premium is payment for a service, there is a top limit to the amount that a person pays for Cooperative membership, \$40,500 for joint filers who currently make over \$450,000/yr.

### **Why does the Cooperative use the cooperative business model?**

- Cooperatives are a proven business model for communities coming together to solve problems and provide services. Examples of successful cooperatives include credit unions, Recreational Equipment, Inc. (REI), rural electric cooperatives, and the Green Bay Packers.
- Cooperatives are member-owned and member-run businesses. As such, they are motivated to serve their members. Cooperatives fit the American democratic ideal – of the people, by the people, and for the people.
- Because the Cooperative can be a non-government subsidiary of the state and not a state agency, it can establish clean campaign rules for eligibility for Board membership. These rules can prohibit candidates from accepting support from financial interests outside Colorado that allow special interests to influence elections.

- A cooperative is a local system of governance that promises to be more responsive and less bureaucratic than the current system, which is burdened with federal regulation and influenced by powerful, out-of-state insurance companies.

### **Does the Cooperative provide quality health care?**

- The Board is mandated to consider value, outcomes, and patient experience in all of its decisions. The Cooperative will be able to finance health care through Accountable Care Organizations that are built around primary care offices called “Medical Homes.” Most health care economists and leaders in health care reform believe that this is the model needed to create a system that provides quality care and good outcomes, in contrast to the current system that often encourages care that is both excessive and costly. However, the Board is required to use the ACO model only to the extent that it improves care and achieves the desired goals of value, outcomes, and patient satisfaction. It can modify the ACO model or use other payment models as the situations require.
- A Board of locally elected Coloradans will run the Cooperative to assure that the Cooperative will be responsive to the needs and desires of Coloradans for quality care.
- Independent Consumer Ombudsperson and Provider Ombudsperson offices will be created to assure that the Cooperative will be responsive to the needs and desires of Coloradans.
- The Cooperative will have adequate funding to provide quality health care.

### **What are the benefits?**

The Cooperative would provide the following benefits regardless of whether they are the result of an accident, a work-related injury, or any other cause:

- Primary and specialty care
- Hospitalization
- Pharmaceuticals and medical equipment
- Mental health and substance abuse treatment
- Emergency and urgent care
- Health maintenance and disease prevention
- Health, wellness and end-of-life care
- Designated dental, vision, and hearing benefits
- Designated long-term care and home care services

### **How do the benefits of the Cooperative compare to health care insurance?**

#### ***Comparing the Cooperative to insurance plans***

How can a Coloradan compare their health insurance plan benefits with the Cooperative? There are probably no plans that are as comprehensive as the Cooperative. The Cooperative intends to do away with deductibles, which are present in almost all insurance plans. The Cooperative may use limited copayments to encourage personal responsibility where appropriate. However, its use of copayments is prohibited for designated preventive and primary care, and not allowed when copayments create a barrier to necessary medical treatment, as they do for low-income patients. With these limitations on copayments, the Cooperative uses fewer copayments than even high-quality or platinum plans. Insurance plans do not attempt to pay for basic dental care, and the Cooperative intends to pay for basic dental care, an essential component of good physical health.

#### ***What is actuarial value?***

Economist Gerald Friedman, in his analysis of the economic impact of the Cooperative, described the funds that would be needed for a comprehensive plan that would provide 90% actuarial value based on all health care expenses.

Actuarial value describes the percentage of health care costs that a plan pays for its entire risk pool (all of its members combined). Consider: A high-deductible insurance plan might have a \$4,000 deductible, pay 100% after the deductible is met, and have an actuarial value of 60%. That means that when all people in the risk pool are considered, the insurance company pays 60% of their “covered expenses.” When individuals are considered, the story is different. If John Doe has \$3,999 of expenses and never meets his deductible, the insurance company has paid 0% of his “covered expenses.” If Jane Doe has a major condition with \$400,000 of “covered expenses,” the insurance plan pays 99% of her expenses.

The actuarial value for insurance plans is based not on total health care expenses, but on the restricted “covered expenses” defined by the policy manual. In the ACA Exchanges, the Bronze, Silver, Gold, and Platinum plans have actuarial values of 60%, 70%, 80%, and 90% respectively. These actuarial values are based on the “covered expenses” in the restricted basic benefit package offered on the Exchange. This is far less comprehensive than the standard for the Cooperative, which uses all health care expenses as measured by the National Health Expenditures (Colorado portion is referred to as CHE) published by the Centers for Medicaid and Medicare Services.

Many people think that, logically, an insurance plan should cover all medical expenses. However, that is not the case once someone sees all of the kinds of expenses that are included in the CHE. All expenses include not only those things paid by insurance and out-of-pocket, but also those things that are not paid by any insurance such as some cosmetic surgery, full dental, copayments, and over-the-counter medications. No health care plan would want to pay for all of these expenses, so by the “all health care expenses” standard, a complete 100% actuarial value is not desirable.

#### *More health care with the Cooperative*

For Coloradans to truly compare, dollar versus dollar, what they now pay for health care to the cost of health care with the Cooperative, they would need to know what percentage their plan pays now, on average, of all Colorado health expenditures (CHE) for its members. However, actuarial value based on the standard of all health care expenses is not available for most insurance plans. Because almost all current insurance plans are below the Cooperative’s goal of 90% actuarial value, the Cooperative can be considered to provide equal to or higher actuarial value by the all expenses standard, and in many cases, much higher.

#### *Better value with the Cooperative*

With the funding recommended by economist Gerald Friedman in his analysis “Three Possibilities for Colorado’s Future Health Care Financing and Delivery,” it is assured that the Cooperative would have adequate funds to provide equal or greater benefits than almost any insurance plan. Adequate funding is the key to good benefits. If the funding is inadequate, an insurance plan would need to create regulations and policies that limit services. If the funding is adequate, promised services can be offered without unreasonable limitations. Furthermore, as a cooperative, the Colorado Health Care Cooperative does not have the motivation to limit services to increase profits.

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Link for this Description and Dr. Friedman’s analysis:  
<http://www.couniversalhealth.org/research/economicanalysis>